

***The City of Lynchburg
Review of Payroll***

***Opportunity House
September 28, 2005***



Prepared by the Office of Internal Audit

City of Lynchburg
Internal Audit Department
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Data for employee master files is entered to the New World Systems Payroll Module by staff in Human Resources. Payroll clerks enter employee hours worked and leave taken. Payroll is processed in the Financial Services Department.

The Office of Internal Audit conducts periodic audits of Payroll processing for individual departments across the City. These reviews include tests of controls over payroll processing and documentation.

This audit was performed as a regularly scheduled audit with the approval of the Audit Committee.

Review Objectives

The purpose of the review was to determine that:

- Payroll calculations are accurate and supported by adequate documentation;
- Personnel files in Human Resources support the departmental payroll calculation and include all legally required documents;
- Checks processed through payroll are for legitimate employees of the City;
- Access to the payroll system is adequately restricted to necessary personnel; and
- Procedures are in compliance with legal requirements, IRS regulations, and City policy and procedures as related to payroll

Scope of Work

We interviewed personnel at Opportunity House and reviewed system documentation to establish an understanding of payroll procedures. Payroll reports were tested for eighteen employees at Opportunity House and personnel files in Human Resources were reviewed to ensure that payroll deductions were authorized by employees and that files included all legally required documents. The period of review was 4/6/05 through 4/19/05 and 6/15/05 through 6/28/05.

The audit was conducted in accordance with professional internal auditing and generally accepted governmental auditing standards specified in the City's Internal Audit

Charter and, accordingly, included such tests of records and other audit procedures as were considered necessary in the circumstances.

The Internal Audit Department is free from organizational impairments to independence in our reporting as defined by government auditing standards. We report directly to an audit committee and, administratively to the city manager and are organizationally outside the staff or line management function of the areas we audit.

Opinion On Internal Controls

The objectives of a system of internal control are to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management authorization and are properly recorded.

Based on our review, we concluded that the system of internal controls provides reasonable assurance that assets are safeguarded and transactions were made in accordance with City policy.

Audit Conclusions

Based on the results of our review, we conclude that...

- The payroll calculations were accurate and supported by adequate documentation except as noted in the “Observations & Suggestions” section of this report.
- The personnel files in Human Resources supported the departmental payroll calculation and included legal documents required for payroll except as noted in the “Observations & Suggestions” section of this report.
- The checks processed through payroll were for legitimate employees of the City;
- Access to the payroll system is adequately restricted to necessary personnel; and
- Procedures were in compliance with legal requirements, IRS regulations, and City policy and procedures as related to payroll.

Observations & Suggestions

I. Observations: Correction not keyed properly

An employee was shorted 5 hours of time in a previous pay period and the time was added to the current pay period on a date that was not actually worked.

Suggestion:

According to guidelines established for keying payroll, when an employee is shorted hours from a previous pay period the hours should be keyed in the current pay period on the actual date the work was performed. When payroll reports are printed the date will be listed on an exception report that shows the date is “out of pay range for the current pay period”. This will ensure that our financial records are accurate.

II. Observation:

Personnel files for one employee did not include Federal and State withholding forms or an I-9 verification. According to discussion with Human Resources any employee hired after 1/1/1999 should have proper I-9 documentation and withholding forms in their personnel file. The above noted exceptions were after 1/1/1999.

Suggestion:

We recommend Human Resources obtain the missing forms.

We would like to express our appreciation to the employees at Opportunity House and in Human Resources for their assistance during this audit.

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